Stability Programme of the Netherlands

April 2015

Foreword

Programme status
A draft of the stability programme has been submitted to both houses of parliament. On 21 April a debate took place in the Lower House and on 28 April the Upper House was consulted, pursuant to the wish of both houses to have an opportunity to voice an opinion on the Stability Programme before submission to the European Commission.

Relationship to 'two-pack'
The Stability Programme also serves as the Dutch medium-term fiscal plan. The Netherlands thereby complies with the obligation laid down in Article 4 of Council Regulation 473/2013.

Relationship to the National Reform Programme
The contents of the National Reform Programme and the Stability Programme shows some overlap, for example in the sections on macro-economic developments. The Stability Programme focuses on macro-economic developments, the development of the Dutch government finances and the planned budgetary policy. The National Reform Programme focuses foremost on measures and structural reforms in view of the country-specific recommendations for the Netherlands under the European Semester and on progress with regard to the objectives in the context of the Europe 2020 strategy. Where relevant, and to avoid any overlap, these documents refer to each other.

Figures used
Unless indicated otherwise, the figures used in this report for 2014, 2015 and 2016 are based on the most recent economic forecasts by the Netherlands Bureau of Policy Analysis (CPB) published in its Central Economic Plan (CEP) of 16 March 2015. The figures for 2014 for government finances which are also reported to the European Commission with the April Notification have been adjusted as a result of the actual figures reported by the CBS on 26 March. The figures for the years after 2016 (in this case 2017 and 2018) are the result of a technical extrapolation which is also based on the medium-term forecast by the CPB dated November 2012 (Coalition Agreement), because the CEP does not have a more recent forecast for this period.

Dutch versus English version
In case of any discrepancies between the Dutch and the translated English version, the Dutch version is leading.

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Introduction

This Stability Programme (SP) presents an update of the Dutch budgetary policy. Between 2012 and 2017 the budgetary consolidation amounts to € 51 billion (approximately 8% of GDP) on the basis of the 2010 Coalition Agreement, the 'Spring Agreement', the 2012 Budgetary Agreement and the €6 billion consolidation package. These measures have ensured that the Netherlands was dismissed from the excessive deficit procedure of the Stability and Growth Pact (SGP) in 2014.

Currently, the requirements arising from the preventive arm of the SGP apply for the Netherlands. In the preventive arm a country must comply with the medium-term objective (MTO) and the expenditure rule. In addition, the Netherlands is obliged to reduce the debt to below 60% of GDP in the context of the SGP debt rule.

According to the latest insights the actual general government balance for the Netherlands improves from -2.3% of GDP in 2014 to -1.8% of GDP in 2015 and -1.2% of GDP in 2016. The extent of the deficit reduction is attributable to various factors. Aside from the efforts made by government with consolidation measures, the economic recovery is also contributing to the improvement of the general government balance. For the first time since 2009 public spending as a percentage of the GDP is clearly falling, as is interest expenditure due to the lower interest rates. This result is achieved despite a substantial drop in gas revenues due to reduced production output and lower gas prices.

The structural budget balance is forecast to be -0.2% of GDP in 2014 and -0.5% in both 2015 and 2016. Considering this, the Netherlands complies in all three years with the medium-term objective (MTO) in the preventive arm of the SGP. In addition, based on the CEP the Netherlands complies with the expenditure rule of the SGP in both 2014 as well as 2015 and 2016. Finally, government debt is also coming down: the government debt falls from 68.8% of GDP in 2014 to 67.8% in 2016. According to current views based on the CEP, the Netherlands also complies with the debt rule.

On the basis of the above the Netherlands complies with all SGP requirements. The Netherlands remains fully committed to the European budgetary agreements.

Chapter 1: Overall policy framework and objectives

The government's budgetary policy is supported by measures to enhance structural economic growth. For an overview of progress on the government's reforms reference is made to the National Reform Programme (NRP) of the Netherlands. The NRP includes a detailed description of measures taken by the government in light of the country-specific recommendations for the Netherlands under the European Semester, and examines the progress in respect of the Europe 2020 strategy objectives.

Chapter 2: Economic outlook

Recovery of the Dutch economy continues. In the most recent projection by the Netherlands Bureau for Economic Policy Analysis (CPB) the Dutch economy will grow 1.7% in 2015 and 1.8% in 2016. Aside from exports, domestic factors also contribute positively to economic growth. Unemployment is dropping gradually. Not only is employment increasing, but labour supply is increasing as well.

Introduction

This chapter considers the macro-economic prospects of the Dutch economy. Since the Netherlands is a small open economy, the prospects of the international economy will be discussed first. After that, this chapter looks into the prospects for the Dutch economy and labour market in the medium term.

International developments and external assumptions

The Dutch economy is a small open economy and is therefore dependent on external economic developments. The projection for the Dutch economy is also based on projections for the development of world trade and various technical assumptions. The external environment is favourable, partially due to a decrease in the oil price. World GDP growth will endure: from 3.2% in 2014 to 3.6% in 2016. Growth is picking up slightly in the United States and the United Kingdom. This pickup in growth will be experienced throughout relevant foreign markets. The economic growth of EU countries is more moderate, but is experiencing a positive momentum due to the drop in the oil price. The projection in 2015 and 2016 also assumes a lower exchange rate of the Euro (with respect to the Dollar) and a lower oil price. The international economic developments have a positive effect on the growth of the Dutch economy.

Table 2.1 External assumptions[1]

	2014	2015	2016
Short-term interest rate (annual average)	0.2	0.0	0.0
Long-term interest rate (annual average)	1.5	0.5	0.5
USD/EUR exchange rate (annual average)	1.3	1.1	1.1
Nominal effective exchange rate*	0.7	-6.3	-0.1
World GDP growth	3.2	3.4	3.6
EU GDP growth	0.9	1.4	1.8
Growth of relevant foreign markets	2.4	4.3	4.9
Oil price (Brent, USD/barrel)	99	53	62

* Percentage changes with respect to competitors

Economic outlook

After two years of economic contraction in 2012 and 2013 the Dutch economy recovered cautiously in 2014 with a growth of 0.8% on an annual basis. This recovery continues through 2015 and 2016. In the projection economic growth is forecast to be 1.7% in 2015 and 1.8% in 2016. Over the past few years exports provided the main positive contribution towards economic growth. In 2015 and 2016 the drivers of economic growth will change. Domestic spending will recover and, together with exports, provide a positive contribution to economic growth.

[1] Table 8 of the SGP's code of conduct

Table 2.2 Macro-economic prospects[2] [3]

	ESA code	2014	2014	2015	2016
		Level (€ billion)	rate of change	rate of change	rate of change
1. Real GDP	B1*g	654.5	0.8	1.7	1.8
2. Nominal GDP (€ billion)	B1*g	654.5	1.8	2.7	2.7
Components of real GDP					
3. Private consumption expenditure	P.3	293.4	0.1	1.5	1.7
4. Government consumption expenditure	P.3	170.8	-0.1	0.2	0.1
5. Gross fixed capital formation	P.51	119.8	2.3	3.4	3.9
6. Changes in inventories (Δ)	P.52+P.53	-0.3	-0.2	0.1	0.1
7. Exports of goods and services	P.6	544.5	4.0	4.6	4.8
8. Imports of goods and services	P.7	473.6	3.8	4.9	5.3
Contributions to real GDP growth					
9. Final domestic demand		584.0	0.4	1.3	1.4
10. Changes in inventories (Δ)	P.52+P.53	-0.3	-0.2	0.1	0.1
11. External balance of goods and services	B.11	70.9	0.5	0.2	0.2

In 2015 and 2016 exports grow with 4.6% and 4.8%, respectively. This is a higher growth than recorded for 2013 (2.0%) and 2014 (4.0%). This is a consequence of the recovering world trade and an improvement in competitiveness of the economy. The improvement of competitiveness is related to the depreciation of the Euro against the Dollar (see table 2.1). As stated previously, the Dutch economy is sensitive to changes in the projected growth of world trade. Chapter 4 deals with the consequences of a disappointing increase in world trade.

The projected total investments develop in line with the economic upturn and amounts to 3.8% in 2015 and 4.5% in 2016. In 2014 growth of investments was smaller at 1.5%. Both business investments and investments in housing increase. The business investments increase due to a rising occupancy rate, rising producer confidence and increasing profitability. Investment growth in housing is related to the recovery of the housing market, in which especially the number of transactions improves.

Household consumption picks up by 1.5% in 2015 and 1.7% in 2016. In 2012 and 2013 household consumption still went down and in 2014 there was a very small growth (+0.1%). Lower inflation, mainly as a result of a decrease in the oil price combined with nominal wage growth, results in an increase in real household income. The higher real household income leads to growth in consumption in 2015 and 2016.

To summarise, the Dutch economy is following a traditional recovery pattern: first exports pick up, followed by higher investments. Later on household consumption picks up too.

Labour market

In 2014 the unemployment rate was 7.4% of the working population. For 2015 and 2016, the unemployment rate decreases to 7.0% in 2016 as a result of an increase in labour demand. Employment (in number of persons) increases with 0.9% in 2015 and 1.0% in 2016 and is concentrated in the private sector. Unemployment decreases moderately due to growth in both labour demand and supply. In 2015 and 2016 the labour force will increase by 0.9%. In 2014 the

[2] Table 1a as suggested in the SGP code of conduct

[3] After publication of the Central Economic Plan (CEP) by the Netherlands Bureau for Economic Policy Analysis (CPB), the CBS has presented new realisations for 2014 for a number of macro-figures, including an improved figure for GDP growth (0.9%)

labour force still decreased with 0.5%. Especially labour supply of females and the elderly is picking up. Policy measures such as the raise of the statutory retirement age are partly behind this. Additionally, the number of people withdrawing from the labour market is decreasing due to improving economic circumstances.

Table 2.3 Labour market developments[4]

	ESA code	2014	2014	2015	2016
		Level	rate of change	rate of change	rate of change
1. Employment, persons (x 1000)		8678.0	-0.3	0.9	1.0
2. Employment, hours worked		6933.5	-0.4	0.8	0.9
3. Unemployment (% of the working population)		656.0	7.4	7.2	7.0
4. Labour productivity, persons		75.4	1.0	0.8	0.9
5. Labour productivity, hours worked		94.4	1.2	0.9	1.0
6. Total compensation of employees	D.1	329.4	1.6	1.1	3.1
7. Compensation per employee (€)		38.0	2.4	0.5	2.3

[4] Table 1c as suggested in the SGP code of conduct

Chapter 3: General government balance and debt

Under the influence of favourable economic developments and previously taken deficit-reducing measures the Dutch public finances improve in the forthcoming years. In 2015 the budget deficit will be 1.8% of GDP and in 2016 the deficit drops further to 1.2% of GDP. This means that the general government balance of the Netherlands will keep a significant distance from the SGP reference value of 3% of GDP. In 2015 and 2016 the structural balance will be -0.5% of GDP, which means compliance with the medium-term objective (MTO). Furthermore, on the basis of the CEP, the Netherlands also complies with the expenditure benchmark in 2015 and 2016. In 2014 and 2015 the gross government debt amounts to 68.8% of GDP, and in 2016 the debt reduces to 67.8%. On the basis of the reduction of the gross government debt projected by the CPB, the Netherlands also complies with the debt rule. These figures show that the Netherlands has taken a significant step towards sustainable public finances for the short and medium term.

Introduction

This chapter describes the policy strategy of public finances and provides an overview of the developments of the general government balance and the gross government debt in the short and medium term.

Policy strategy

The government's financial and socio-economic policy is based on three pillars: providing fiscal sustainability, maintain a socially acceptable distribution in austerity measures and stimulating sustainable growth. This strategy is in line with the Annual Growth Survey 2015, which calls upon Member States to restore the sustainability of public finances by means of structural reforms.

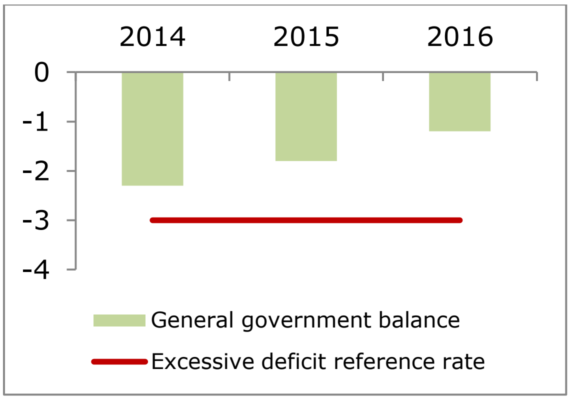
Since the beginning of this government's term extensive packages of deficit-reducing measures were introduced. The budgetary effect of the policy packages since the Rutte-Asscher Coalition Agreement is an ex-ante improvement of the general government balance of € 15 billion in 2015 and of € 18 billion in 2016. Combined with a favourable economic development, these measures are currently leading to further improvement of government finances.

The enforcement of the Dutch expenditure framework will be a key element in drawing up the budget for 2016. The focus will be on the implementation of the previously agreed measures in the Coalition Agreement and in later agreements. The Netherlands remains fully committed to the European budgetary agreements.

Budgetary projection for the short and medium term

In 2014 the general government balance resulted in a deficit of 2.3% of GDP. In the forthcoming years the budget deficit will drop further to 1.8% of GDP in 2015 and 1.2% of GDP in 2016. On the basis of these expectations the general government balance of the Netherlands will keep a significant distance from the reference value of 3% of GDP. Compared to the Draft Budgetary Plan (DBP) submitted in September 2014, the general government balance for 2015 is developing in a more positive way. This is the result of slightly lower expenditures than foreseen and slightly higher revenues than expected. Lower expenditure mainly occurs in the area of interest expenditure due to a decline in the long-term interest rates. The more positive tax receipts are mainly due to higher corporate income tax receipts as a result of higher company profits. This is counterbalanced by lower gas revenues than previously forecasted due to a reduction in gas production and a lower gas price. Figure 3.1 shows the projection of the general government balance, as well as the SGP excessive deficit reference value.

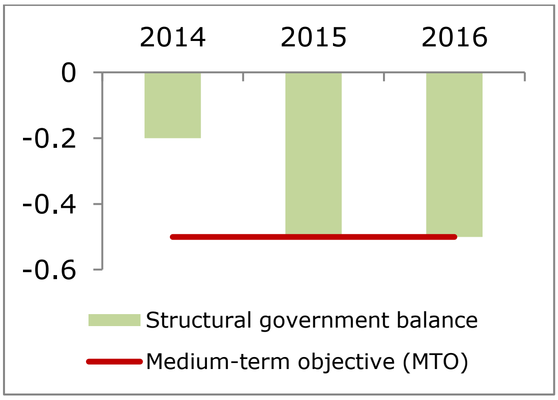
Figure 3.1 Projection of general government balance (% of GDP)



In the medium term the Netherlands focuses on realising a structural government balance of -0.5% and on a controlled development of public expenditure. The current CPB CEP projections show that with a structural balance of -0.5%, the Netherlands complies with the medium-term objective (MTO) in 2015 and 2016. The DBP still assumed a structural balance of -0.7% for 2015. The improvement of the structural balance in respect of this previous projection is mainly caused by improvements in the actual general government balance. Figure 3.2 reflects the projection of the structural government balance.

By contributing to labour demand and economic growth potential a revision of the tax system can have a positive budgetary effect in the long term and contribute to the sustainability of government finances. Therefore, such a revision could qualify for the structural reform clause of the Stability and Growth pact under article 5 of Regulation 1466/97 and the Commission Communication on flexibility. Should in the first few years a too large deviation from the MTO result as a consequence of the tax system revision, and the tax system revision would meet the conditions, then the Netherlands will apply for application of the structural reform clause.

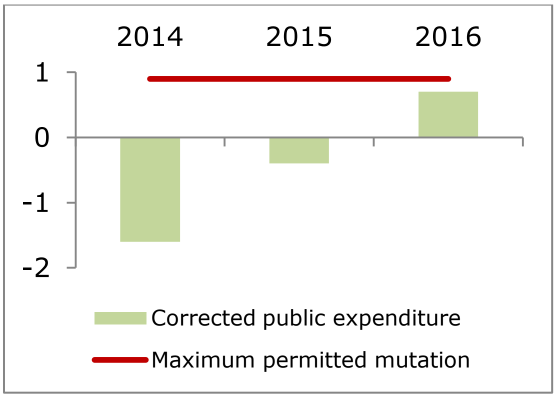
Figure 3.2 Projection of structural government balance (% of GDP)



Based on the current CEP projections, the Netherlands also complies with the expenditure benchmark. According to the expenditure benchmark the percentage increase of the corrected public expenditure for the Netherlands may not be higher than 0.9%[5] per year. The percentage change of the corrected public expenditure remains below this standard for all years under consideration. The corrected expenditure development remains below the potential growth of the economy. Figure 3.3 shows the CEP projection of the development of corrected expenditure.

[5] The Commission has recently announced that it plans to update the reference rate based on its Spring Forecast. The Netherlands chooses to use the current reference rate for calculating the expenditure rule in the Stability Programme.

Figure 3.3 Projection of corrected public expenditure (percentage change)



Gross government debt

Table 3.1 reflects the extent and development of the gross government debt. In 2014 the debt amounts to € 451 billion which corresponds to a debt level of 68.8% of GDP. In 2015 the gross government debt remains the same and in 2016 it decreases to 67.8 % of GDP. The reduction of the gross government debt is partly the result of improvements in the primary balance and lower interest expenditure. The debt level also reduces as a result of a faster growing economy: higher growth of the nominal GDP ensures that debt, expressed as a GDP percentage, decreases (denominator effect). Finally, the debt in 2014 dropped compared to the Budget Memorandum (Miljoenennota) 2015 due to the resolution of financial transactions related to the financial crisis. This concerns the resolution of the Illiquid Asset Back-up Facility (IABF), the repayment by ING and the sale of the remaining claim on Landsbanki/Icesave. On the basis of the reduction of the gross government debt projected by the CPB, the Netherlands complies with the debt rule.

As a result, on the basis of the current CPB forecast, the Netherlands complies with both pillars of the preventive arm of the SGP (MTO and expenditure benchmark) and additionally complies with the debt rule.

Table 3.1 General government debt developments [6]

in % of GDP	ESA Code	**2014**	**2015**	**2016**
1. Gross debt		68.8	68.8	67.8
2. Change in gross debt ratio		0.2	-0.0	-1.0
3. Primary balance		-0.8	-0.5	0.1
4. Interest expenditure	EDP D.41	1.4	1.3	1.2
5. Stock-flow adjustment		-2.1	-1.8	-2.1
of which:				
- Differences between cash and accruals		0.3	0.0	0.2
- Net accumulation of financial assets		-1.0	-0.1	-0.5
of which:				
- Privatisation proceeds		..	..	..
Denominator effect		-1.3	-1.8	-1.8

[6] Table 4 as suggested in the SGP code of conduct

Chapter 4: Sensitivity analysis and comparison with previous programme

Compared with the Stability Programme of April 2014 the projections of a few main macro-economic indicators have been adjusted in a positive way. The economic growth is slightly higher and the budget deficit and the gross government debt are dropping faster than forecasted in April 2014. Of course, development of these variables are sensitive to economic shocks, including world trade and share prices.

Introduction

This chapter describes how a few main macro-economic indicators differ compared with the previous update of the Stability Programme (April 2014). This is followed by an analysis of how these variables develop in alternative scenarios.

Comparison with Stability Programme of April 2014

Table 4.1 shows how the current projections of GDP growth, the general government balance and the gross government debt deviate with respect to the projections in the previous Stability Programme. The current projections for GDP growth show that the economy grows slightly faster in 2015 and 2016 than previously forecasted. The general government balance and particularly the gross government debt have improved for the period 2014-2016 compared to the figures in the previous Stability Programme. This improvement can largely be explained by the revision of the national accounts in the summer of 2014. Due to the implementation of ESA 2010 and a review of statistical sources, Statistics Netherlands (CBS) has adjusted the GDP of the Netherlands upwards. This has a denominator effect on the gross government debt and the general government balance. Due to this denominator effect, the gross government debt as a percentage of the GDP is between 4 to 5 percentage points lower after revision. The impact of the revision on the general government balance differs per year. The government balance not only changes because of the increase in GDP, but also because of a change in definitions in which interest rate swaps are no longer taken into account. This change in definition has no impact on the general government balance in 2014 and a negative impact of 0.2% of GDP on the government balance in 2015.

Table 4.1. Divergence from Stability Programme 2014[7]

in % of GDP	ESA Code	**2014**	**2015**	**2016**
Real GDP growth				
Update April '14		0.8	1.2	1.6
Current update		0.8	1.7	1.8
Difference		0.0	0.5	0.2
General government net lending	EDP B.9			
Update April '14		-2.9	-2.1	-1.9
Current update		-2.3	-1.8	-1.2
Difference		0.6	0.3	0.7
General government gross debt				
Update April '14		74.6	74.7	74.1
Current update		68.8	68.8	67.8
Difference		-5.8	-5.9	-6.3

[7] Table 6 as suggested in the SGP code of conduct

Alternative scenarios and risks

A shock in relevant foreign markets or an unexpected drop in share prices has an immediate effect on the Dutch economy. This sensitivity analysis shows how the economy could develop compared to the baseline scenario if one of these scenarios take place. Both scenarios assume a change in the macroeconomic variables at the beginning of 2015, and then present the effects for the period 2015-2016. These scenarios are estimates drawn up by the Ministry of Finance, based on the most recent version of SAFFIER (the CPB model for short-term projections, medium-term scenarios and analyses of Coalition Agreements and policy options).[8]

Scenario 1: Delayed recovery of the global economy and world trade

Global economic recovery and world trade may end up being weaker than expected as a consequence of, for example, a slower recovery in consumer and producer confidence, the phasing out of accommodating monetary policy in the US or possible new financial turmoil in the European Union, as well as a slow-down of growth in emerging economies. Table 4.2 shows the effects of a one-off and permanent decline in the relevant world trade of 1% at the beginning of 2015. Reduced world trade would have a negative impact on Dutch exports and therefore on production in the market sector. In the short-term, business investments will also decrease and unemployment will rise slightly. Lower VAT revenues in combination with increasing unemployment expenditure, in this scenario, lead to a deterioration of the general government balance. In this scenario the general government balance deteriorates by 0.1% of GDP in 2015 and by 0.2% of GDP in 2016.

Table 4.2 - Alternative scenario 1: decline in world trade by 1% (deviations in %)

	deviation from baseline scenario 2015	deviation from baseline scenario 2016	Cumulative deviation from baseline scenario (2015-2016)
Volume of GDP	-0.2	-0.1	-0.3
Private consumption	0.0	-0.2	-0.2
Businesses investments, excluding housing	-1.1	0.1	-1.0
Export of goods, excluding energy	-0.9	0.1	-0.8
Consumer price index (CPI)	0.0	-0.1	-0.1
Unemployment rate (% working population)	0.1	0.2	0.2
General government balance (% GDP)	-0.1	-0.2	-0.2

Scenario 2: A decline in share prices of 20%

A decline in consumer and producer confidence can cause a negative shock to share prices. Table 4.3 presents a scenario in which the prices of shares owned by households permanently end up 20% lower than in the baseline scenario. This concerns the stock equity held by households. This scenario, for example, does not take into account a negative effect on the wealth of pension funds and the possibility that this could increase pension premiums. The lower share prices in the short-term lead to a lower level of stock equity held by households. This has a downward impact on household consumption via a negative income effect. In addition, investments by businesses decrease and GDP ends up lower than in the baseline scenario. In this scenario the impact on the general government balance in 2015 is zero, whereas the government balance in 2016 deteriorates by 0.1%.

[8] See also: CPB, 2011, SAFFIER II Alternatives, background document to SAFFIER II (CPB document 217)

Table 4.3 - Alternative scenario 2: decline in share prices by 20% (deviations in %)

	deviation from baseline scenario 2015	deviation from baseline scenario 2016	Cumulative deviation from baseline scenario (2015-2016)
Volume of GDP	0.0	-0.1	-0.1
Private consumption	-0.1	-0.1	-0.2
Businesses investments, excluding housing	-0.1	-0.2	-0.3
Export of goods, excluding energy	0.0	0.0	0.0
Consumer price index (CPI)	0.0	0.0	0.0
Unemployment rate (% working population)	0.0	0.0	0.0
General government balance (% GDP)	0.0	-0.1	-0.1

Chapter 5: Sustainability of public finances

In the past few years various policy measures were taken to improve the long-term sustainability of public finances. Last year the CPB published a new ageing study.[9] *This study shows that the Netherlands has a positive sustainability balance of 0.4% of GDP, a substantial improvement with respect to the outcome of previous ageing studies. This is the result of various reforms in pensions and the healthcare sector, among others. Yet the sustainability surplus appears to be sensitive to assumptions, particularly in relation to health care expenditure. The outstanding risks of the government's contingent liabilities has decreased since 2013.*

Introduction

This chapter explains the calculation of the sustainability balance and the projections up to 2060. After that, the contingent liabilities of the Dutch government are reviewed.

The sustainability balance

The sustainability of public finances is assessed on the basis of the sustainability balance. Public finances are sustainable if future tax revenues cover future government expenditures and the interest on the current outstanding government debt. When public finances are unsustainable, the government debt continues to rise and will 'explode' in the long term. So sustainable public finances imply at least a stabilisation of the government debt as a percentage of GDP in the long term.

In calculating the sustainability balance 'constant arrangements' are assumed.
This definition means that future generations benefit to the same extent from public services as current generations. The definition of benefit is made in such a way that expenditures on public services (e.g. on care) in relation to income do not change for the various generations. Constant arrangements are therefore not the same as unchanged policy. Unchanged policy, for instance, would mean everybody in the long run would pay taxes in the highest tax bracket. However, in the case of constant arrangements the tax burden does not change. The ageing study of the CPB assumes constant arrangements and can therefore not be interpreted as a 'prediction' of the most realistic scenario for the development of public finances.

The development of the demographic structure influences public spending arrangements. Table 5.1 shows that the share of the population aged 65+ in respect of the whole population increases in the period up to 2040, and that labour force participation of people aged between 15 and 64 will rise in the period up to 2060. The workforce participation will also increase for people aged 64 to 75 as a result of the increase in the statutory retirement age. Table 6.1 also shows that ageing-sensitive public spending, such as spending related to the health care or the first pillar pension scheme (*AOW*), will increase faster than GDP. This holds including recent reforms in the first pillar pension scheme and the health care sector. Without these reforms government expenditures would increase at a faster rate.

Calculations with these assumptions lead to a positive sustainability balance of 0.4% of GDP. The sustainability surplus in this most recent study is a major improvement in comparison to the previous sustainability study of the CPB. In the previous sustainability study of 2010 the CPB calculated the sustainability gap at 4.5% of GDP.[10] The improvement of the sustainability balance is, to a large extent, due to reforms in the first pillar pension scheme and the health care sector.

The positive sustainability balance differs from the most recent projection by the European Commission dated 2012. The Commission projected a sustainability gap of -5.9% of GDP. This is a

[9] CPB, 2014, *Minder zorg om vergrijzing*, CPB Book 12
[10] CPB, 2010, Ageing population spread, Special CPB Publication 86

substantial difference compared to the sustainability surplus now calculated by the CPB. The reason for this, among other things, is that the Commission figures have become outdated. The EC will present a new sustainability study later this year. Then a better comparison can be made.

The calculation of the sustainability balance depends on certain assumptions. In order to perceive the influence of the various assumptions, in the most recent ageing study the CPB includes sensitivity analyses in its calculations. In one of the scenarios the healthcare costs rise 1 percentage point faster per annum than in the reference scenario. This higher healthcare expenditure growth leads to a deterioration of the sustainability balance. The sustainability balance deteriorates with 5.6% of GDP as a result of this assumption. This shows the sensitivity to the assumptions and the importance of healthcare expenditure development for the sustainability of public finances. A life-expectancy rise of two years has a smaller effect on the sustainability balance: -0.3%. This limited effect on the sustainability balance is a result of linking the statutory retirement age to life expectancy.

Table 5.1 Long-term sustainability of public finances (baseline according to CPB) [11]

in % of GDP[12]	**2010**	**2020**	**2030**	**2040**	**2050**	**2060**
Total expenditure	48,2%	45,4%	47,0%	48,2%	47,5%	46,9%
of which:						
Age-related expenditure	20,8%	22,2%	23,8%	25,7%	25,3%	25,2%
Pension expenditure	6,2%	7,0%	7,4%	8,1%	7,7%	7,5%
Social security expenditure	11,7%	12,9%	12,9%	13,6%	13,2%	13,1%
Old-age and early pension	4,5%	5,1%	5,7%	6,4%	5,9%	5,6%
Other pension (disability, survivors)	1,7%	1,9%	1,7%	1,7%	1,8%	1,9%
Healthcare (cure)	5,9%	7,9%	8,6%	9,2%	9,1%	9,0%
Long-term care	3,5%	2,3%	2,7%	3,3%	3,6%	3,8%
Education expenditure	5,1%	5,0%	5,0%	5,1%	5,0%	4,9%
Other age-related expenditure	0	0	0	0	0	0
Interest expenditure	1,8%	1,7%	2,7%	2,2%	1,8%	1,3%
Total revenue	43,2%	44,7%	46,5%	47,8%	47,6%	47,4%
of which: property income	2,7%	1,7%	0,6%	0,4%	0,3%	0,3%
of which: pension contributions (or social security premiums)	3,3%	3,3%	3,3%	3,3%	3,3%	3,3%
Pension reserve fund assets	138,8%	175,9%	187,6%	183,8%	171,0%	163,7%
Reform of the pension system						
Pension expenditure paid by the mandatory private scheme	4,8%	5,5%	6,9%	7,7%	6,7%	6,1%
Assumptions						
Labour productivity growth	1.5%	0.8%	1.3%	1.4%	1.4%	1.5%
Real GDP growth	1.0%	1.5%	1.0%	1.5%	1.7%	1.5%
Participation rate males (15-64)	83.7%	85.5%	86.5%	87.3%	87.5%	87.8%
Participation rate females (15-64)	72.7%	76.0%	76.9%	78.1%	78.3%	78.6%
Total participation rate (15-64)	78.2%	80.7%	81.7%	82.6%	82.9%	83.2%
Unemployment rate (20-64)	5.1%	6.7%	4.9%	4.9%	4.9%	4.9%
Population aged 65+ over total population	16.2%	20.8%	25.0%	27.3%	27.0%	27.2%

[11] Table 7 as suggested in the SGP code of conduct
[12] The figures are in percentage of GDP taking the revision of the National Accounts (ESA2010) into account

Contingent liabilities

The policy framework for contingent liabilities is laid down in budget rules and government regulations. Based on the budget rules, a "no, unless" policy applies with regard to contingent liabilities (that is: direct and indirect guarantee facilities and loans). Although new contingent liabilities facilities could sometimes be necessary, the Dutch government acts in the most reserved manner possible. The government thinks it is important not only to assess new arrangements, but also to use restraint with regard to (broadening) existing arrangements. The actual assessment has been implemented via the Assessment Framework for Contingent Liabilities[13]. The three key elements of the assessment framework are:

- Reason for government intervention and choice of instrument, in other words usefulness and necessity;
- Management of risks, both ex-ante and ex-post (governance);
- Pricing of the risk as well as both implementation costs and costs of losses.

The guarantee framework can be summarised as follows[14]:

- A "no, unless" policy applies to all guarantees and loans.
- In principle all arrangements will have a sunset clause.
- The assessment framework for risk arrangements is always submitted to Parliament.
- In the case of new arrangements and amendments to existing arrangements, (other) risk arrangements will have to be decreased.
- A rule will ensure the scaling down of unused caps.
- Retrenchment of arrangements is being considered.
- A second opinion will be requested from an independent, specialist party with regard to risk management and the setting of premiums for large and complicated risks.

In the period 2008-2012 the number of government guarantees rose significantly. Mostly due to the financial crisis and the economic downturn. Notwithstanding the reservations the government has about providing new guarantees, measures were necessary to counter substantial systemic risks, both nationally and in the Eurozone. 2013 saw a decline for the first time in the outstanding exposure of contingent liabilities. Among other things this is as a result of the reduction in the guarantee cap which the Dutch government gave to the provisional emergency fund of the European Financial Stability Facility (EFSF). This decline continued in 2014. The number of outstanding guarantees dropped from € 214 billion in 2013 (33.3% of GDP) to € 197 billion in 2014 (30.1% of GDP). In the past year all existing arrangements were critically assessed. This has led, among other things, to introducing or increasing risk premiums, the building up of buffers and the scaling down of outstanding exposures or the reduction of guarantee caps.

Table 5.2. provides an overview of the outstanding guarantees in 2014 with the status at the end of 2014. All guarantee liabilities above € 1 billion have been shown separately in the table. In the table a differentiation is made in guarantees concluded in view of international agreements and national guarantees. Approximately three quarters of the outstanding guarantees were concluded in view of international agreements.

[13] http://www.rijksoverheid.nl/documenten-en-publicaties/regelingen/2012/03/05/toetsingskader-risicoregelingen.html
[14] For a full overview see: http://www.rijksoverheid.nl/documenten-en-publicaties/kamerstukken/2013/09/17/rapport-commissie-risicoregelingen-en-kabinetsreactie.html

Table 5.2 Contingent liabilities* [15]

in € billion	**2014**
Total guarantees	**197.1**
Which include	
International guarantees	**152.9**
European Financial Stability Facility (EFSF)	49.6
DNB participation in IMF capital	47.2
European Stability Mechanism (ESM)	35.4
European Investment Bank (EIB)	9.9
World Bank	3.9
European Financial Stabilisation Mechanism (EFSM)	2.8
EU Balance-of-payments (BoP) assistance to Member States	2.3
Guarantees regional development banks	1.8
National guarantees	**38.6**
Facility for nuclear disasters (*WAKO*)	14.0
Export credit insurance (*EKV*)	13.4
Guarantee De Nederlandsche Bank (DNB)	5.7
Guarantee SNS REAAL	3.6
Guarantee for loans to SMEs (*BMKB*)	1.9

*Includes all guarantee schemes with an outstanding exposure greater than € 1 billion. This overview has been drawn up by the Ministry of Finance and present the status at the end of 2014.

Aside from guarantees, the Netherlands also has so-called indirect guarantees. This concerns a total sum of about € 270 billion in 2014. However, the risk to government finances associated with indirect guarantees is substantially different from the risk to government finances associated with direct guarantees. There are a number of reasons for this. Firstly, in the case of an indirect guarantee the actual guarantee is not issued directly by the government, but by a specially appointed indirect guarantee fund. The government therefore acts only indirectly as the guarantor. Secondly, indirect guarantees have multiple ‘safety layers’ which significantly limit the risk for the government. The government is only liable when the indirect guarantee fund cannot comply with its obligations. The fund's own equity forms the first layer. This is followed by the obligation for participants to support the fund financially if the fund’s equity drops below a certain level, the equity participation of the participants. Only in extreme cases can the fund have recourse to the government. A fund then gets an interest-free loan from the central government, occasionally together with local governments. This loan must then be paid back, therefore the impact is of a temporary nature.

[15] Table 7a as suggested in the SGP code of conduct

Chapter 6: Quality of public finances

Part of the enhancement of the quality of public finances is to carry out evaluation studies. The evaluations are carried out in various ways. Ex-ante by means of e.g. a 'social costs and benefits analysis' (MKBAs) for major government projects, where a calculation is made in advance concerning the positive and negative effects. Ex-post this is done on the expenditures side by carrying out policy audits and 'interdepartmental policy reviews' (IBOs). On the revenues side all tax expenditure is evaluated periodically and assessed on effectiveness and efficiency. An assessment framework must be completed for all new tax expenditures. On both the expenditure and revenue sides of the central government budget this provides an assurance of the quality of public finances and improves accountability to parliament.

Introduction

This chapter starts with a description of the ex-post evaluation instruments on the expenditure side of the national budget, and is followed by a description of which instruments guarantee the quality on the revenue side.

Expenditure side

Although public expenditure, as a percentage of gross domestic product (% of GDP), is expected to decrease slightly in the forthcoming years, this still amounts to about 45% of the Dutch economy. This concerns more than € 300 billion in 2014. It is essential to continue investigating whether the budgetary resources are spent in the right way. Good spending implies an effective and efficient spending of budgetary resources. Policy is effective when the envisaged target is met. Efficiency determines whether the target is met at the lowest possible costs and with the least possible side-effects. Policy audits and Interdepartmental Policy Reviews (*IBOs*) are the primary instruments to assess the efficiency and effectiveness ex-post on the expenditures side and on the basis of which improvements can be made.

Policy audits

A policy audit is a synthesis research of various evaluations at the instrument level. They lead to an assessment of the efficiency and effectiveness of the policy pursued. As part of the Accountable Budgeting approach to presenting budgets, policy audits are the primary instruments used for ensuring accountability to parliament about the policy and expenditure under the various items in the budget. Ministers themselves are responsible for the periodic evaluation of efficiency and effectiveness. The Minister of Finance is responsible for the overall system for the policy audits. In 2014 more attention was paid to timely completing policy audits. The result for 2014 is an improvement in respect of 2013 in terms of timeliness. The 2014 budget announced 27 policy audits (2013: 21) and 17 were submitted to parliament (2013: 9). In total 25 policy audits were completed in 2014. Eight policy audits that were submitted to parliament in 2014 were delayed from preceding years. The objective for the forthcoming years is to continue this positive development and, as a government, to further investigate how the quality of public expenditure can best be enhanced.

Developments in the field of policy audits

The policy audits instrument is subject to change. Numerous improvements have been made since this instrument was described in the Stability Programme of 2013. In the first instance the Periodic Evaluation Research Arrangement (*RPE*) incorporated a number of changes to enhance the policy audits instrument. The revised *RPE* in the meanwhile has been published and entered into force on 1 January 2015. Since then a policy audit must also contain an analysis of policy options if 20% less budgetary resources would have been available. Policy audits in future must also seek to resolve how the effectiveness and efficiency of the policy can further be improved. In the second

instance parliament has been promised that it will be involved in advance when establishing and phrasing the objectives of a policy audit. In addition, as from 2015 there is a ‘Policy and Money’ training at the National Academy for Finance and Economics, where evaluation of policy is an important aspect.

Interdepartmental policy reviews

Every year the government institutes a number of interdepartmental policy reviews (*IBOs*). Led by an independent chairman, a working group researches a broad spectrum of areas to achieve savings and/or a more efficient spending of public resources. This is elaborated in variants that present proposals to improve the existing situation with policy alternatives. As the report is written by a working group of high officials, politically sensitive topics are not off-limits. The final report is, together with a reaction by the government, presented to parliament.

Every year three to five *IBOs* are undertaken and the results are often reflected in the election programs of political parties. This means that it is a valuable instrument to assess and to improve policy. The current round of *IBOs* are looking into the Dutch pension scheme, the position of the self-employed without staff (ZZP workers) in the labour market, the operation of the national police, the maintenance and procurement process of the Military, and effective learning pathways in basic (primary + vocational) education. Most of the reports will be submitted to Parliament in the summer.

Revenue side

In 2012 and 2013 the Income Tax and Allowances Commission (Van Dijkhuizen Commission) presented a number of proposals to make the tax system easier, more solid and fraud-proof. The proposals pertained to a revision of the tax system's income tax, allowances and a shift of the employment/income tax to indirect taxes.

At present the government is working on a proposal to revise the tax system. The current tax system is more disruptive than necessary and this is costing jobs and economic growth. The government's aim with a revised tax system is to improve labour demand. The new tax system must be more motivational, in which it's more beneficial to work and to work longer hours, in which growth and development become more natural for entrepreneurs, and in which the business climate will continue to create new jobs in the future. The government will submit elaborated proposals in the run-up to the 2016 budget.

Chapter 7: Institutional features of public finances

Introduction

The Stability and Growth Pact (SGP) and the Treaty on Stability, Coordination and Governance (TSCG), increased budgetary discipline via enlarging 'ownership' of the European agreements for the individual Member States. Fully in line with the European agreements, the European budgetary rules have been legally codified on the highest level of Dutch national law via the Law on the Sustainability of Public Finances (HOF bill). This chapter provides a short description of the HOF bill and extensively discusses the structuring of independent budgetary monitoring in the Netherlands, in which the Netherlands Bureau for Economic Policy Analysis (CPB) and the Advisory Division of the Council of State (Raad van State, RvS[16]) fulfil a prominent role.

HOF bill (*Wet HOF*)

The essence of the HOF bill is to codify European budgetary agreements, to stipulate that the State and local governments (municipalities, provincial authorities and regional water authorities) must make an equal effort to comply with these agreements and to introduce correction mechanisms. Additionally applicable for the State is that the most important core principles of the trend-based budgetary policy have also legally been codified in the HOF bill.

The national codifying of the European budget agreements is laid down in Article 2, third paragraph of the Law on the Sustainability of Public Finances, which states that the trend-based budgetary policy will only exist within the boundaries of the European budget agreements. This refers to the requirements in both the corrective arm and the preventive arm of the SGP This bill makes it mandatory for the Netherlands to take adequate additional measures when the Council of the EU indicates that the Dutch fiscal trajectory would not lead to adequate compliance with the European budgetary rules.

Reinforcement of budgetary discipline through independent monitoring

Part of the European agreements is that a Member State must introduce an independent institution which will be charged with the monitoring of compliance with European budgetary rules (laid down in Article 5, Council Regulation 473/2013). The RvS is designated as this institution. It is charged with the independent monitoring of the budgetary developments in conformity with the requirements as laid down in Article 5 of Council Regulation 473/2013. The RvS is a truly independent institution. The new task in the budgetary process is in line with the existing practice in which the RvS already provides recommendations on the Budget Memorandum (Miljoenennota) for more than 100 years. The HOF bill now stipulates that, on providing recommendations on the Budget Memorandum, the RvS assesses whether the draft budget complies with the European budget agreements. The RvS assesses for example, whether the draft budget complies with the requirements of the medium-term objectives (MTO) such as the structural balance and the expenditure benchmark. In its assessment the RvS uses the economic and fiscal forecasts of the CPB. Dutch budgetary policy, by tradition, is based on independent forecasts and analyses from the CPB. For example, the CPB calculates projections of the (structural) budget balance, the expenditure rule and the debt criterion.

[16] Where 'RvS' is referred to below, this should be read as 'the Advisory Division of the Council of State'

Box – the 'correction mechanism'

The RvS also plays a prominent role where it concerns a significant deviation in the preventive arm of the SGP (in conformity with Article 5, paragraph 2 of Council Regulation 473/2013). In such case a correction mechanism enters into force, as laid down in the HOF bill. Adequate expenditure-restricting and/or revenue-increasing measures must be taken to correct the observed deviation. The HOF bill establishes that the RvS then fulfils a normative role in the recovery plan that must be drawn up in order to get back onto the pathway that fits within the bandwidths of the preventive arm of the SGP. In addition, the HOF bill states that if the Minister of Finance, in concurrence with the opinion of the Dutch council of ministers, determines that the pursued trend-based budgetary policy does not sufficiently lead to respecting the established national and European standards, adequate expenditure-restricting or revenue-increasing measures are necessary. In practice this could mean that the Netherlands already takes measures to comply with the European agreements, even before it receives a recommendation from the authorised EU institution and the correction mechanism enters into force. In the assessment of the Dutch public finances compared to the European budget rules, the RvS may also address the question whether exceptional circumstances exist that could justify use of the flexibility in the European budget rules.

By designating the budgetary assessment to the RvS, the Dutch government made a distinction between the normative assessment of the RvS and independent budgetary and economic forecasting of the CPB. The RvS describes its new role as 'independent monitoring of the budgetary rules' to discern it from the advisory role of the Advisory Division of the Council of State. The RvS has implemented the independent budgetary monitoring for the first time in 2014 when it published its first assessment of the draft budget in the light of the EU budgetary rules in its advice on the draft Budget Memorandum 2015.

For an adequate independent budgetary monitoring it is important that it addresses the most important elements in the national budgetary cycle. Hence arrangements have been made with the RvS, that, aside from the assessment at the time of the Budget Memorandum, it also provides an assessment in the spring. After all, a prominent cornerstone of the Dutch trend-based budgetary policy is the comprehensive decision-making in the spring. In the spring the RvS will assess whether the envisaged budgetary developments in the Netherlands ensure compliance with the European rules on the basis of the CPB forecast. The spring assessment by the RvS is publicly available prior to the government's budgetary decisions and therefore has a maximum impact. The experiences with this spring assessment will be used to further the quality of the RvS spring assessment in the future.

Annex - Stability Programme tables

Table 1a. Macro-economic prospects*

	ESA code	2014 Level (€ billion)	2014 rate of change	2015 rate of change	2016 rate of change	2017 rate of change	2018 rate of change
1. Real GDP	B1*g	654.5	0.8	1.7	1.8	1.6	1.6
2. Nominal GDP (€ billion)	B1*g	654.5	1.8	2.7	2.7	2.5	2.5
Components of real GDP							
3. Private consumption expenditure	P.3	293.4	0.1	1.5	1.7	0.1	0.1
4. Government consumption expenditure	P.3	170.8	-0.1	0.2	0.1	0.1	0.1
5. Gross fixed capital formation	P.51	119.8	2.3	3.4	3.9	2.6	2.6
6. Changes in inventories (change)	P.52+P.53	-0.3	-0.2	0.1	0.1	0.0	0.0
7. Exports of goods and services	P.6	544.5	4.0	4.6	4.8	5.1	5.1
8. Imports of goods and services	P.7	473.6	3.8	4.9	5.3	4.5	4.5
Contributions to real GDP growth							
9. Final domestic demand		584.0	0.4	1.3	1.4	0.5	0.5
10. Changes in inventories (change)	P.52+P.53	-0.3	-0.2	0.1	0.1	0.0	0.0
11. External balance of goods and services	B.11	70.9	0.5	0.2	0.2	1.1	1.1

* After publication of the Central Economic Plan (CEP) by the Netherlands Bureau for Economic Policy Analysis (CPB), CBS has presented new realisations for 2014 for a number of macro-figures, including improved GDP growth to 0.9%

Table 1b. Price developments

	ESA code	2014 Level	2014 rate of change	2015 rate of change	2016 rate of change	2017 rate of change	2018 rate of change
1. GDP deflator		100	1.0	1.0	0.8	0.9	0.9
2. Private consumption deflator		100	1.2	0.5	1.2	1.8	1.8
3. HICP		100	0.3	-0.1	0.9	1.5	1.5
4. Government consumption deflator		100	1.0	-0.5	1.7	1.5	1.5
5. Investment deflator		100	-0.2	0.0	0.5	0.7	0.7
6. Export price deflator (goods and services)		100	-1.8	-2.1	2.0	0.2	0.2
7. Import price deflator (goods and services)		100	-2.3	-3.6	2.6	0.7	0.7

Table 1c. Labour market developments

	ESA code	2014 level	2014 rate of change	2015 rate of change	2016 rate of change	2017 rate of change	2018 rate of change
1. Employment, persons (x 1000)		8678.0	-0.3	0.9	1.0	0.5	0.5
2. Employment, hours worked		6933.5	-0.4	0.8	0.9	0.2	0.2
3. Unemployment (% of the working population)		656.0	7.4	7.2	7.0	6.5	6.5
4. Labour productivity, persons		75.4	1.0	0.8	0.9	1.1	1.1
5. Labour productivity, hours worked		94.4	1.2	0.9	1.0	1.4	1.4
6. Compensation of employees	D.1	329.4	1.6	1.1	3.1	1.6	1.6
7. Compensation per employee (€)		38.0	2.4	0.5	2.3	1.3	1.3

Table 1d. Sectoral balances

% of GDP	ESA code	2014	2015	2016	2017	2018
1. Net lending/borrowing vis-à-vis the rest of the world	B.9	9.6	10.0	9.5	10.9	10.9
of which:						
- Balance on goods and services		10.8	11.6	11.3	12.3	12.3
- Balance of primary income and transfers		1.1	0.4	0.4	0.8	0.8
- Capital account		-2.3	-2.0	-2.2	-2.2	-2.2
2. Net lending/borrowing of the private sector	B.9	12.4	11.7	10.6	11.5	11.5
3. Net lending/borrowing of general government	EDP B.9	-2.3	-1.8	-1.2	-0.7	-0.7
4. Statistical discrepancy						

Table 2a General government budgetary prospects

	ESA Code	2014 Level (billion €)	2014 % of GDP	2015 % of GDP	2016 % of GDP	2017 % of GDP	2018 % of GDP
Net lending (EDP B.9) by subsector							
1. General government	S.13	-15.0	-2.3	-1.8	-1.2	-0.7	-0.7
2. Central government	S.1311	-7.1	-1.1	-1.4	-1.2	-0.7	-0.7
3. State government	S.1312						
4. Local government*	S.1313	-2.1	-0.3	-0.2	-0.2	-0.2	-0.2
5. Social security funds	S.1314	-5.8	-0.9	-0.1	0.3	0.3	0.3
General government (S13)							
6. Total revenue	TR	290.4	44.3	43.8	44.0	43.8	43.8
7. Total expenditure	TE	305.4	46.6	45.6	45.2	44.5	44.5
8. Net lending/borrowing	EDP B.9	-15.0	-2.3	-1.8	-1.2	-0.7	-0.7
9. Interest expenditure	EDP D.41	9.5	1.4	1.3	1.2	1.2	1.2
10. Primary balance		-5.5	-0.8	-0.5	0.1	0.6	0.6
11. One-off and other temporary measures		-0.9	-0.1	0.0	0.0	0.0	0.0
Selected components of revenue							
12. Total taxes (=12a+12b+12c)		147.6	22.5	23.0	22.9	23.1	23.1
12a. Taxes on production and imports	D.2	75.2	11.5	11.2	11.2	n/a	n/a
12b. Current taxes on income, wealth, etc.	D.5	71.0	10.8	11.6	11.5	n/a	n/a
12c. Capital taxes	D.91	1.5	0.2	0.2	0.2	n/a	n/a
13. Social contributions	D.61	101.7	15.5	14.6	15.1	n/a	n/a
14. Property income	D.4	9.0	1.4	1.2	1.0	n/a	n/a
15. Other		32.0	4.9	5.0	4.8	n/a	n/a
16=6. Total revenue	TR	290.4	44.3	43.8	44.0	43.8	43.8
Tax burden		247.8	37.9	37.6	38.1	38.2	38.2
Selected components of expenditure							
17. Compensation of employees + intermediate consumption	D.1 + P.2	101.5	15.5	14.9	14.8	14.5	14.5
17a. Compensation of employees	D.1	60.3	9.2	8.9	8.9	n/a	n/a
17b. Intermediate consumption	P.2	41.2	6.3	6.0	5.9	n/a	n/a
18. Social payments		146.2	22.3	21.9	21.7	21.5	21.5
of which Unemployment benefits		14.0	2.1	2.1	2.0	2.0	2.0
19=9. Interest expenditure	EDP D.41	9.5	1.4	1.3	1.2	1.2	1.2
20. Subsidies	D.3	7.8	1.2	1.2	1.2	1.3	1.3
21. Gross fixed capital formation	P.51	23.8	3.6	3.5	3.4	3.3	3.3
22. Capital transfers		0.4	0.1	0.1	0.1	0.1	0.1
23. Other		16.2	2.5	2.7	2.8	2.6	2.6
24=7. Total expenditure	TE	305.4	46.6	45.6	45.2	44.5	44.5

* these are provinces and municipalities

Table 2b. No-policy change projections

	2014 Level (billion €)	2014 % of GDP	2015 % of GDP	2016 % of GDP	2017 % of GDP	2018 % of GDP
1. Total revenue at unchanged policies	290.4	44.3	43.8	44.0	43.8	43.8
2. Total expenditure at unchanged policies	305.4	46.6	45.6	45.2	44.5	44.5

Table 2c. Amounts to be excluded from the expenditure benchmark

	2014 Level (billion €)	2014 % of GDP	2015 % of GDP	2016 % of GDP	2017 % of GDP	2018 % of GDP
1. Expenditure on EU programmes fully matched by EU funds revenue	1.3	0.2	0.2	0.2	0.2	0.2
2a. Unemployment expenditure*	14.0	2.1	2.1	2.0	2.0	2.0
2b. Cyclical unemployment expenditure**	2.5	0.4	0.2	0.1	0.1	0.1
3. Effect of discretionary revenue measures	8.0	1.2	-0.1	0.7	0.2	0.0
4. Increase in income mandated by law	-2.5	-0.4	-0.1	0.4	0.1	0.0

* Unemployment expenditure consists of the Unemployment Act (*WW*), self-employed assistance, implementation costs of the Employee Insurance Schemes Implementing Body (*UWV*), 60+ unemployment benefits (*IOW*), mobility bonus for older beneficiaries and the occupationally disabled, *BUIG* and revenue of government implementation fund (*UFO*).

** Cyclical unemployment expenditure is unemployment expenditure associated with unemployment above the equilibrium rate of unemployment (NAIRU).

Table 3. General government expenditure by function (based on unchanged policy)

in % of GDP	COFOG Code	**2013***	**2016****	**2018****
1. General public services	1	5.1	4.7	4.7
2. Defence	2	1.2	1.1	1.1
3. Public order and safety	3	2.0	1.9	1.9
4. Economic affairs	4	3.9	3.5	3.5
5. Environmental protection	5	1.5	1.4	1.4
6. Housing and community amenities	6	0.5	0.5	0.5
7. Healthcare	7	8.3	8.0	7.9
8. Recreation, culture and religion	8	1.6	1.5	1.4
9. Education	9	5.5	5.5	5.4
10. Social protection	10	17.2	17.1	16.8
11. Total expenditure	TE	46.8	45.2	44.5

*The figures for 2013 originate from the Central Statistical Office (CBS)

**The figures for 2016 and 2018 have technically been extrapolated by the Ministry of Finance based on projections by the Netherlands Bureau for Economic Policy Analysis (CPB)

Table 4. General government debt developments*

in % of GDP	ESA Code	**2014**	**2015**	**2016**	**2017**	**2018**
1. Gross debt		68.8	68.8	67.8	67.0	66.1
2. Change in gross debt ratio		0.2	0.0	-1.0	-0.8	-0.9
3. Primary balance		-0.8	-0.5	0.1	0.6	0.6
4. Interest expenditure	EDP D.41	1.4	1.3	1.2	1.2	1.2
5. Stock/flow adjustment		-2.1	-1.8	-2.1	-1.5	-1.6
of which:						
- Differences between cash and accruals		0.3	0.0	0.2	0.3	0.2
- Net accumulation of financial assets		-1.0	-0.1	-0.5	0.0	0.0
of which:						
- Privatisation proceeds		..	..	..	..	..
Denominator effect		-1.3	-1.8	-1.8	-1.8	-1.8
Implicit interest rate on debt		2.2	1.9	1.8	1.8	1.8
6. Liquid financial assets (% of GDP)		0.4	0.4	0.4	0.3	0.3
7. Net financial debt (7=1-6)		68.4	68.4	67.4	66.7	65.8
8. Debt amortization (existing bonds) since the end of the previous year (€ billion)		32.2	39.5	30.1	51.3	30.8
9. Percentage of debt denominated in foreign currency		1.7	0.9	0.9	0.1	0.1
10. Average maturity		7.2**	7.3***			

* The figures for items 6 to 10 originate from the Dutch State Treasury Agency of the Ministry of Finance.

** As at 31 Dec 2014

*** As at 28 Feb 2015

Table 5. Cyclical developments

in % of GDP	ESA code	**2014**	**2015**	**2016**	**2017**	**2018**
1. Real GDP growth		0.8	1.7	1.8	1.6	1.6
2. Net lending of general government	EDP B.9	-2.3	-1.8	-1.2	-0.7	-0.7
3. Interest expenditure	EDP D.41	1.4	1.3	1.2	1.2	1.2
4. One-off and other temporary measures		-0.1	0.0	0.0	0.0	0.0
5. Potential GDP growth		0.3	0.6	0.7	0.9	0.9
Contributions:						
- Labour		0.0	0.2	0.2	0.0	0.0
- Capital		0.2	0.3	0.4	0.3	0.3
- Total factor productivity		0.1	0.2	0.2	0.6	0.6
6. Output gap (EC method)		-3.1	-2.1	-1.0	-0.3	-0.3
7. Cyclical budgetary component		-2.0	-1.3	-0.7	-0.2	-0.2
8. Cyclically-adjusted balance (2-7)		-0.3	-0.5	-0.5	-0.5	-0.5
9. Cyclically-adjusted primary balance (8+3)		1.1	0.8	0.7	0.7	0.7
10. Structural balance (8-4)		-0.2	-0.5	-0.5	-0.5	-0.5

Table 6. Divergence from Stability Programme 2014

in % of GDP	ESA Code	2014	2015	2016	2017	2018
Real GDP growth						
Update April '14		0.8	1.2	1.6	1.6	
Current update		0.8	1.7	1.8	1.6	1.6
Difference		0	0.5	0.2	0	
General Government net lending	EDP B.9					
Update April '14		-2.9	-2.1	-1.9	-1.4	
Current update		-2.3	-1.8	-1.2	-0.7	-0.7
Difference		0.6	0.3	0.7	0.7	
General government gross debt						
Update April '14		74.6	74.7	74.1	73.2	
Current update		68.8	68.8	67.8	67.0	66.1
Difference		-5.8	-5.9	-6.3	-6.2	

Table 7. Long-term sustainability of public finances

in % of GDP	2010	2020	2030	2040	2050	2060
Total expenditure	48.2%	45.4%	47.0%	48.2%	47.5%	46.9%
of which:						
Age-related expenditures	20.8%	22.2%	23.8%	25.7%	25.3%	25.2%
Pension expenditure	6.2%	7.0%	7.4%	8.1%	7.7%	7.5%
Social security expenditure	11.7%	12.9%	12.9%	13.6%	13.2%	13.1%
Old-age and early pension	4.5%	5.1%	5.7%	6.4%	5.9%	5.6%
Other pensions (disability, survivors)	1.7%	1.9%	1.7%	1.7%	1.8%	1.9%
Occupational pensions (government)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Healthcare (cure)	5.9%	7.9%	8.6%	9.2%	9.1%	9.0%
Long-term care	3.5%	2.3%	2.7%	3.3%	3.6%	3.8%
Education expenditure	5.1%	5.0%	5.0%	5.1%	5.0%	4.9%
Other age-related expenditure	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Interest expenditure	1.8%	1.7%	2.7%	2.2%	1.8%	1.3%
Total revenue	43.2%	44.7%	46.5%	47.8%	47.6%	47.4%
of which : property income	2.7%	1.7%	0.6%	0.4%	0.3%	0.3%
of which : pension contributions (or social security premiums)	3.3%	3.3%	3.3%	3.3%	3.3%	3.3%
Pension reserve fund assets	138.8%	175.9%	187.6%	183.8%	171.0%	163.7%
of which : consolidated public pension fund assets	0.0	0.0	0.0	0.0	0.0	0.0
Systemic pension reforms						
Social contributions diverted to mandatory private scheme	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Pension expenditure paid by the mandatory private scheme	4.8%	5.5%	6.9%	7.7%	6.7%	6.1%
Assumptions						
Labour productivity growth	1.5%	0.8%	1.3%	1.4%	1.4%	1.5%
Real GDP growth	1.0%	1.5%	1.0%	1.5%	1.7%	1.5%
Participation rate males (15-64)	83.7%	85.5%	86.5%	87.3%	87.5%	87.8%
Participation rate females (15-64)	72.7%	76.0%	76.9%	78.1%	78.3%	78.6%
Total participation rates (15-64)	78.2%	80.7%	81.7%	82.6%	82.9%	83.2%
Unemployment rate (20-64)	5.1%	6.7%	4.9%	4.9%	4.9%	4.9%
Population aged 65+ over total population	16.2%	20.8%	25.0%	27.3%	27.0%	27.2%

Table 7a. Contingent liabilities*

in € billion	**2014**
Total guarantees	**197.1**
Which include	
International guarantees	**152.9**
European Financial Stability Facility (EFSF)	49.6
DNB participation in IMF capital	47.2
European Stability Mechanism (ESM)	35.4
European Investment Bank (EIB)	9.9
World Bank	3.9
European Financial Stabilisation Mechanism (EFSM)	2.8
EU Balance-of-payments (BoP) assistance to Member States	2.3
Guarantees regional development banks	1.8
National guarantees	**38.6**
Nuclear Incidents (Third-party Liability) Act (*WAKO*)	14.0
Export credit insurance (*EKV*)	13.4
Guarantee De Nederlandsche Bank (DNB)	5.7
Guarantee SNS REAAL	3.6
SME security deposit (*BMKB*)	1.9

*Includes all guarantee schemes with an outstanding exposure greater than €1 billion. This overview has been drawn up by the Ministry of Finance and represents the status at the end of 2014.

Table 8. Basic assumptions

	2014	**2015**	**2016**	**2017**	**2018**
Short-term interest rate (annual average)	0.2	0.0	0.0	0.5	0.5
Long-term interest rate (annual average)	1.5	0.5	0.5	0.7	0.7
USD/EUR exchange rate (annual average)	1.3	1.1	1.1	1.1	1.1
Nominal effective exchange rate*	0.7	-6.3	-0.1	0.0	0.0
World GDP growth	3.2	3.4	3.6	n/a	n/a
EU GDP growth	0.9	1.4	1.8	1.6	1.6
World excluding EU, GDP growth	3.6	3.7	3.9	n/a	n/a
Growth of relevant foreign markets	2.4	4.3	4.9	6.2	6.2
World import volume, excluding EU	2.1	4.2	5.3	n/a	n/a
Oil price (Brent, USD/barrel)	99	53	62	64	64

* percentage changes with respect to competitors